

**CHIEF AUDITOR'S REPORT**  
**March 2009**

Attachment A

CATEGORY	TOPIC	SUMMARY
1. Internal Audit Activities	Audit Plan Reports Issued	<ul style="list-style-type: none"> <li>• Audit Services is on track to achieve the Board approved FY 2008-09 audit plan.</li> <li>• These key reports were issued since the February Finance Committee meeting: <ul style="list-style-type: none"> <li>○ Change Management – Opportunities for improvement identified.</li> <li>○ 11 Public Agency Reviews – Compliance issues noted in a number of areas.</li> </ul> </li> </ul>
	Audits In Progress	<ul style="list-style-type: none"> <li>• The following key audits are in progress to assess potential risks: <ul style="list-style-type: none"> <li>○ 40 Public Agency Audits</li> <li>○ Asset Allocation, Cash Manager, FISMA, Enterprise Risk Assessment</li> <li>○ Kaiser, Blue Cross, PORAC, Caremark, Medco, Long Term Care</li> <li>○ Asset Management, Identity &amp; Access Management, Data Warehouse</li> </ul> </li> </ul>
	Planned Audits	<ul style="list-style-type: none"> <li>• The following audits will be started in the 4<sup>th</sup> quarter: <ul style="list-style-type: none"> <li>○ Strategic Planning, Trade Desk Operations, Medicare Part D, Fraud Risk Assessment</li> </ul> </li> </ul>
	Projects	<ul style="list-style-type: none"> <li>• Audit Services is participating in the following projects: <ul style="list-style-type: none"> <li>○ PSR internal control &amp; information security assessment, PSR/ETM IPOC, Accounting Action Plan Steering Committee, HMO Financial Ratios</li> </ul> </li> </ul>
	Key Issues	<ul style="list-style-type: none"> <li>• An assessment of key issues identifying trends or concerns: <ul style="list-style-type: none"> <li>○ Health Insurance Portability and Accountability Act</li> <li>○ Financial Statement Auditor Management Letter Comments</li> </ul> </li> </ul>
2. Independent External Financial Statement Auditor	Audit Status	<ul style="list-style-type: none"> <li>• Preliminary planning of the audit for the period ending June 30, 2009 is in process. Fiscal Services is preparing for the audit by coordinating activities throughout the enterprise. Auditor will begin preliminary fieldwork in June 2009.</li> </ul>
	Services	<ul style="list-style-type: none"> <li>• The auditor is performing the following services: <ul style="list-style-type: none"> <li>○ Alternative Investment assessment of internal controls</li> <li>○ Inflation-Linked Asset Class (Commodities, Timber, Infrastructure) assessment of internal controls</li> </ul> </li> </ul>
	Independence	<ul style="list-style-type: none"> <li>• Complies with independence and objectivity standards.</li> </ul>

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2. Independent External Financial Statement Auditor (continued)	Contract Management	<ul style="list-style-type: none"> <li>Compliance is maintained with contract. This is the auditor's third year of a five year contract. Current contract expires in 2012. All work completed within budget.</li> </ul>
3. Independent Real Estate Auditor(s)	Audit Status  Independence  Contract Management	<ul style="list-style-type: none"> <li>4 audit reports issued during 3<sup>rd</sup> quarter. – Investment Office Real Estate unit is resolving contract compliance issues.</li> <li>All real estate auditors comply with independence and objectivity standards.</li> <li>Compliance is maintained with contract. All audits completed within budget.</li> </ul>
4. External Developments	Financial Reporting          Financial Reporting	<ul style="list-style-type: none"> <li>The Governmental Accounting Standards Board (GASB) Statement No. 53, <i>Accounting and Financial Reporting for Derivative Instruments</i> - Statement 53 is intended to improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements. The guidance addresses hedge accounting requirements and is effective for financial statements with reporting periods beginning after June 15, 2009, with earlier application encouraged.</li> <li>GASB Issues Technical Bulletin No. 2008-1, <i>Determining the Annual Required Contribution (ARC) Adjustment for Postemployment Benefits</i> - The Technical Bulletin suggest using the actual ARC, if known, when the actuarial valuation separately identifies the actual amount included in the ARC related to amortization of past employer contribution deficiencies or excess contributions to a pension or other postemployment benefit (OPEB) plan. Technical Bulletin provisions are effective for financial statements with periods ending after December 15, 2008.</li> </ul>

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4. External Developments (continued)	Financial Reporting	<ul style="list-style-type: none"> <li>The GASB Technical Plan, January 2009, includes a project on postemployment benefit accounting and financial reporting. This project focuses on many areas related to actuarial reporting, but it also includes the issue of how to measure fair value and whether or not to use fair value in actuarial calculations. Project scheduled for 1<sup>st</sup> quarter of 2009.</li> </ul>
	Financial Reporting	<ul style="list-style-type: none"> <li>The GASB Technical Plan includes a research project on Fair Value Measurement. The objective of this research project is to review and consider alternatives for the further development of the definition of fair value, the methods used to measure fair value, and potential disclosures about fair value measurements. Within this project, specific issues including fair value measurement of alternative investments, such as private placements and hedge funds, real estate investment trusts, state land trusts, and partnership interests are to be addressed.</li> </ul>
	Control	<ul style="list-style-type: none"> <li>The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its <i>Guidance on Monitoring Internal Control Systems</i>. The guidance is designed to help organizations to better monitor the effectiveness of their internal control systems and to take timely corrective actions if needed.</li> </ul>